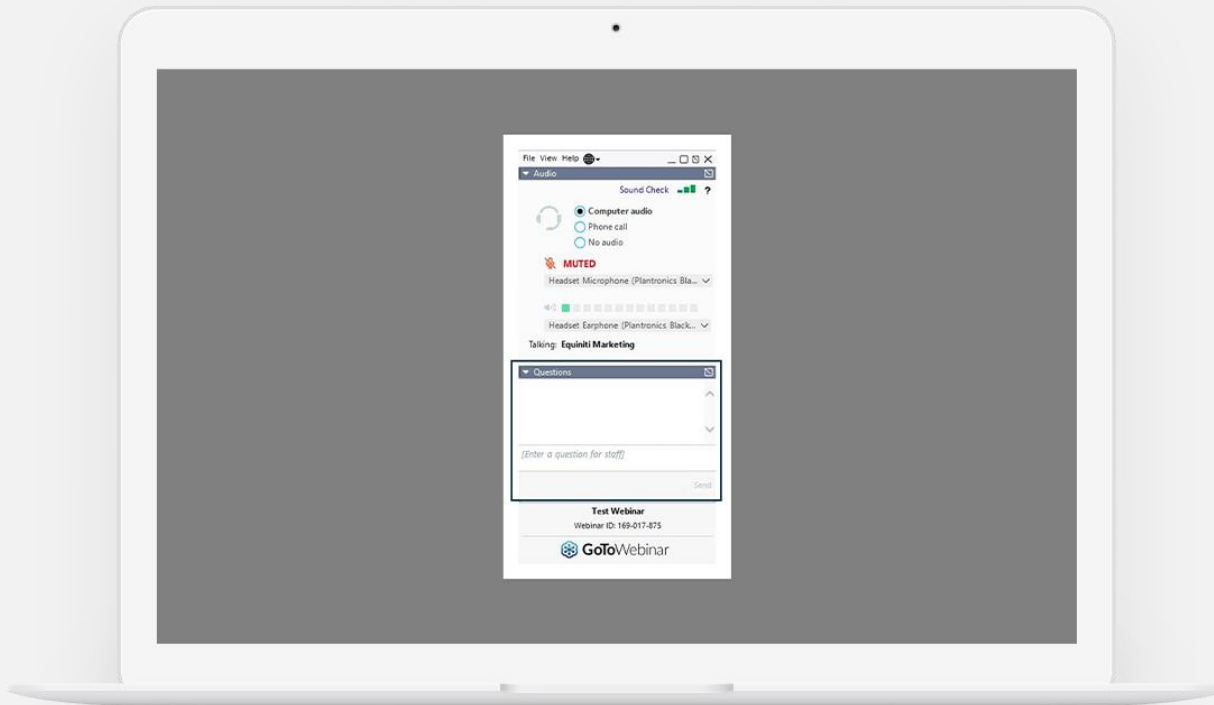




Trends in Share Register Analysis

June 2020



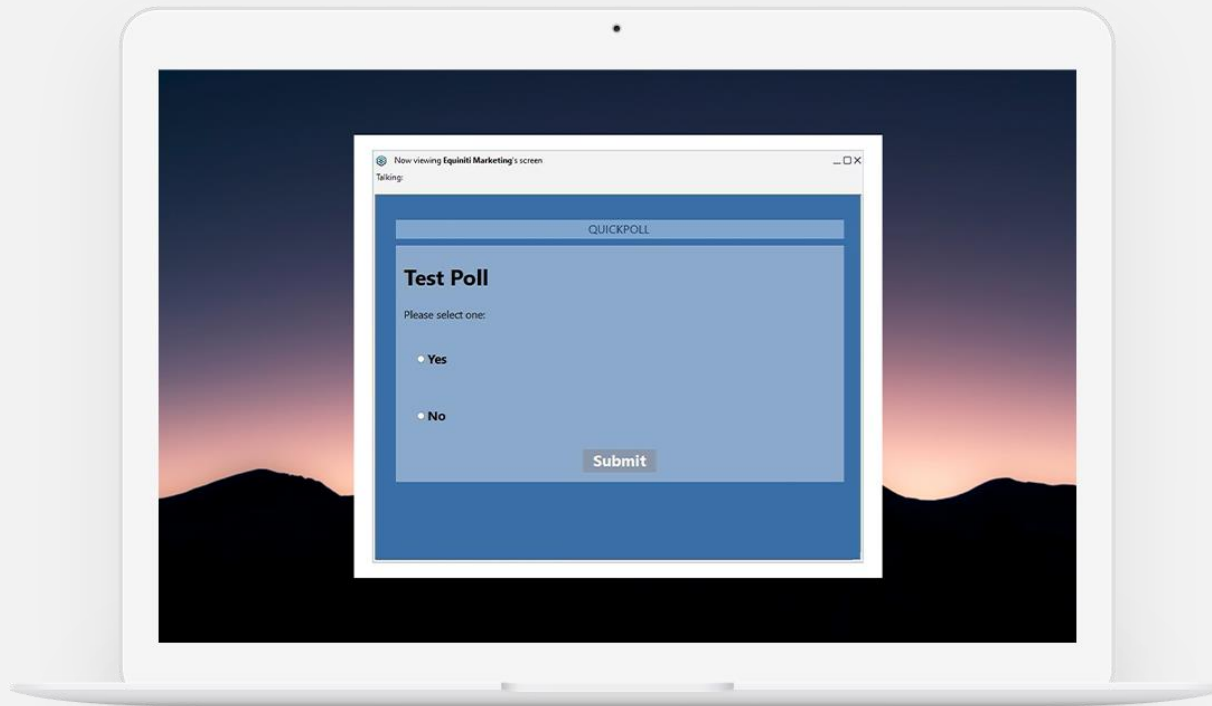
Housekeeping

About Go To Webinar

You should see something that looks like this on your own computer desktop in the upper-right corner. You're listening in using your computer's speaker system by default. If you would prefer to join over the phone, just select "Telephone" in the Audio pane and the dial-in information will be displayed.

Asking Questions

By default all participants are on mute, this is to avoid any background noise. You will have the opportunity to submit text questions to today's presenter by typing your questions into the Questions pane of the control panel. You may send in your questions at any time during the presentation; we will collect these and address them during the Q&A session at the end of today's presentation.



Housekeeping

Polling

We will be using a couple of interactive polls during today's session; we will launch the poll which will pop up on your screen. You'll need to select the appropriate response and click submit.

Online resources

This webinar is being recorded and will be available on demand should you wish to review the presentation.

A copy of the slides will be available to download.

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Current Challenges

Share Register Analysis in 2020

Understanding ownership of your shares has become increasingly important while increasingly difficult

Key reasons for SRA:

Governance / Marketing / Defence

Structural changes in ownership of companies in terms of type and investment style of investors:

- Rise of passive
- More shares held on synthetic basis
- Greater levels of stocklending

Activism now permanent threat from both classic “activists” & from traditional investors

UK plc under potential threat of M&A as a result of coronavirus crisis

Trends in Analysis

Rise of passive investing

Significant rise in passive investing since banking crisis (nearly 50% of institutional ownership of UK shares):

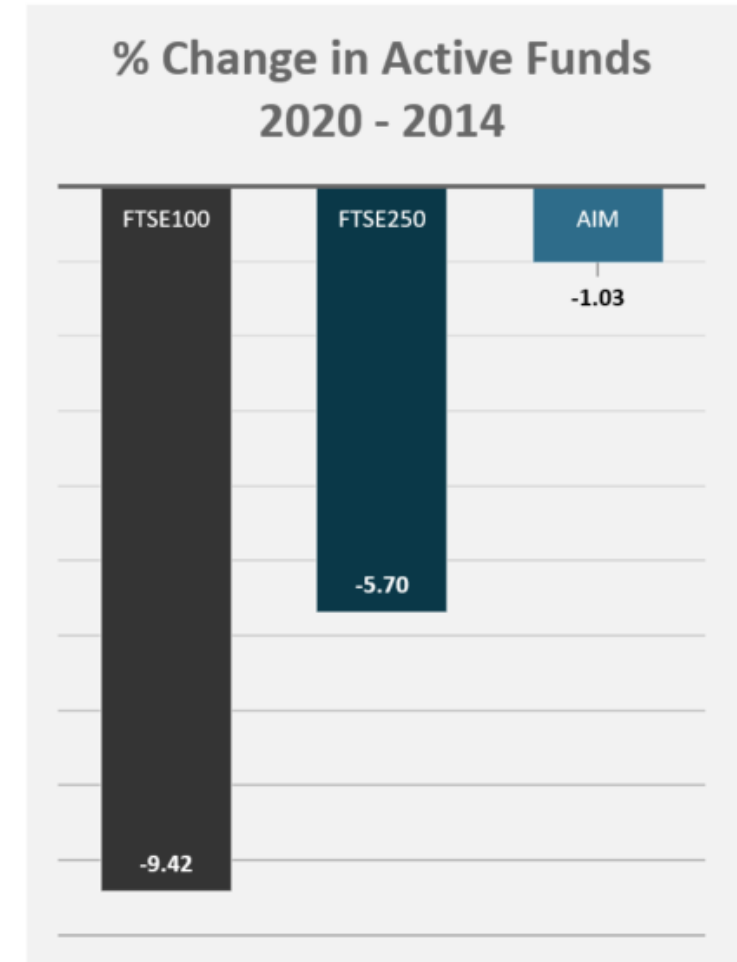
- Indexation
- ETFs
- Passive quant

Predominance of passive investing in FTSE 100 & FTSE 250 over smaller companies

Why has passive become so popular

Link to rise of governance

Implications for voting



Trends in Analysis

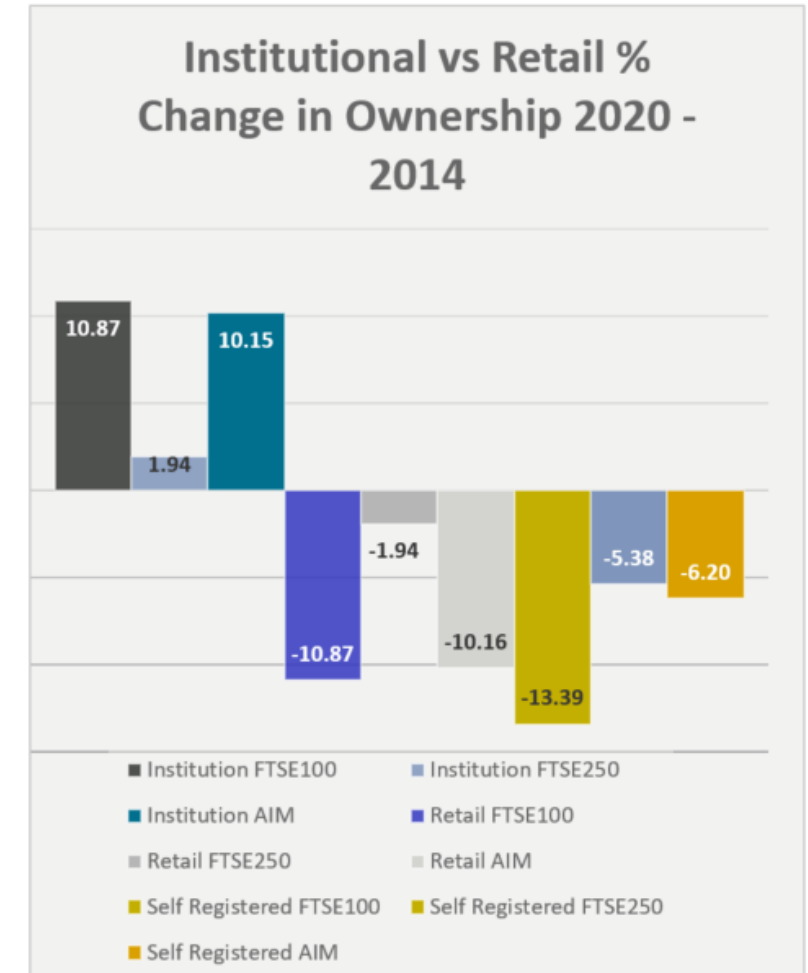
Changes in ownership

Swing from retail to institutional ownership across FTSE 100 / FTSE 250 deriving from positive cashflows into institutional fund management (particularly passive) & dilution of retail ownership

Reduction in number of self-registered holders as retail investors switch to platforms to buy & hold shares – implications for engagement & voting

More shares held synthetically via derivative positions – more difficult to track underlying ownership

Shorting / stocklending even before pre-COVID-19 crisis at 2008 levels pre-banking crisis



Trends in Analysis

Identifying potential stake building & activist activity

Activism is not a new phenomenon but now more prevalent globally

Current weaker macro economic & micro corporate environments conducive to activism & M&A in UK – extra vigilance necessary

Understand health of your share register through familiarity with the way activists buy & hold shares

Key identifiers:

- Increase in unidentified custodian positions including more sub-custodian chains
- Changes in volumes of stocklending
- Increase in shares held via bank trading accounts
- Rise in ownership by hedge funds



Custodians, Sub-custodians and Ownership Chains

Nominee structure

Three types of custody account on your share register

1. Directly registered: Ms Jones holding 500 shares
2. Non-pooled nominee: Unique relationship between fund and firm
3. Pooled nominee: Large bucket accounts of unrelated shareholders, often many tiers deep

Stake-building will typically occur via multi-tier pooled nominees

Long sub-custodian chains may mean ultimate beneficial owner trying to conceal identity

Daily Transaction Reporting

Early Warning Signs

- 01** Easiest way - monitor volumes for potential stake-building to get picture of usual vs unusual trading activity
- 02** Ability to track consideration attached to movements - gives view on whether movement lending or not
- 03** Ongoing view on share register ownership split between institution vs trading
- 04** Inter-bank lending viewable
- 05** Track nominees accounts known to have been involved with previous activist investors
- 06** Volume data providers have issues with delayed & advertised only trades

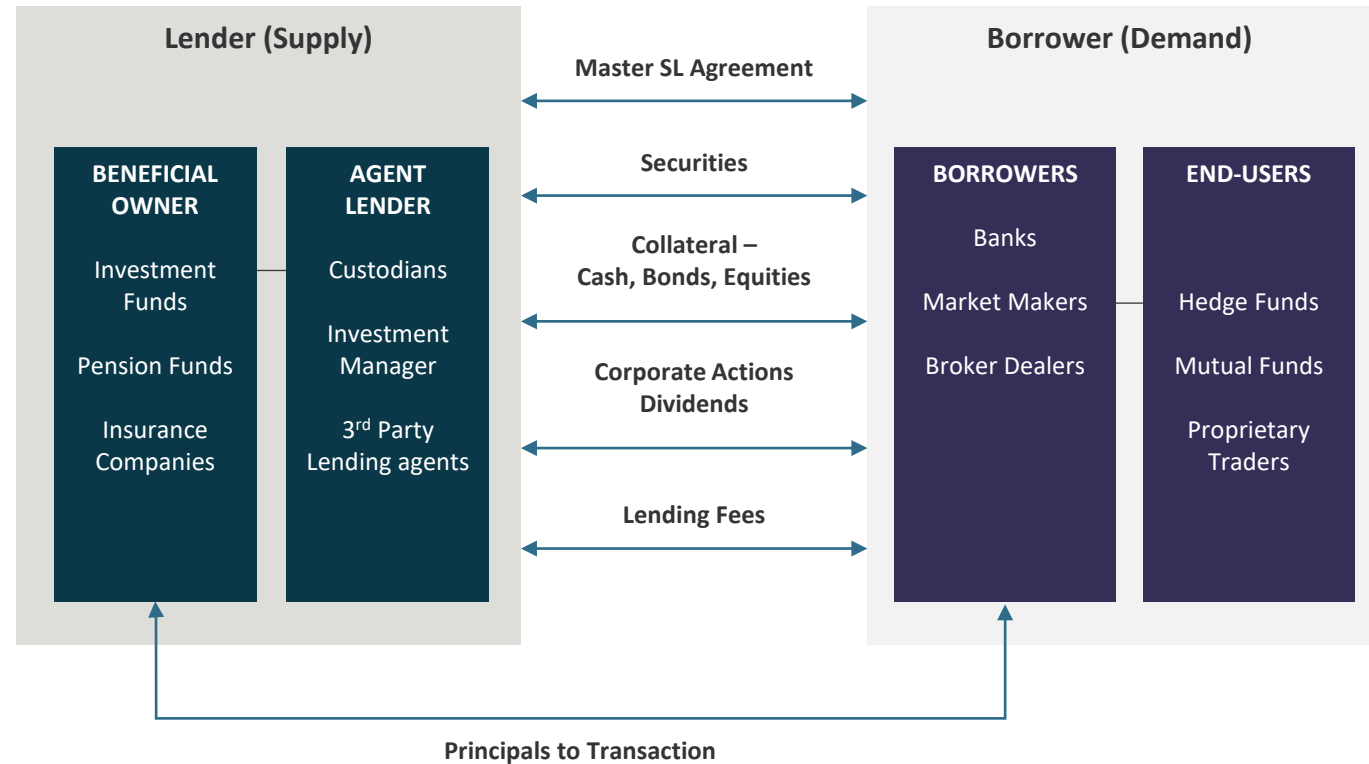


Poll

Stocklending & Shorting

Overview

- What is stocklending?
- Why do investors lend stock?
- How does stocklending work?



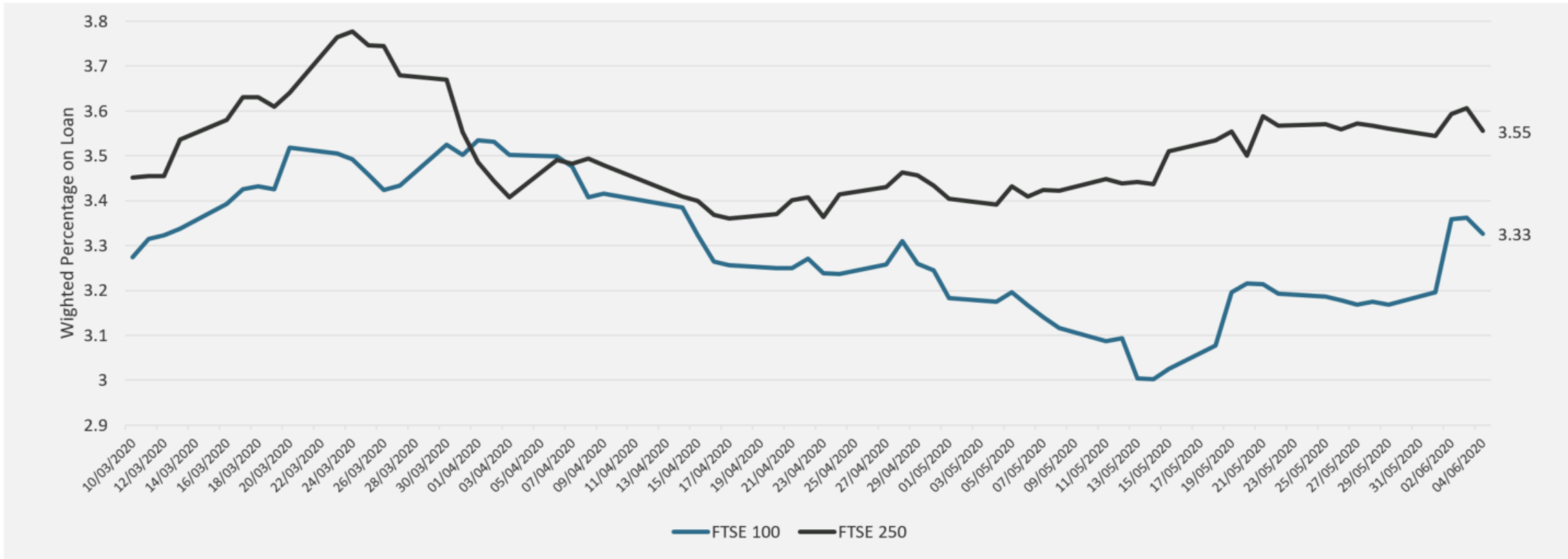
Stocklending & Shorting

Data

- Visibility on who is shorting your stock
- Tracking stock lending via CREST
- Good share register analysis can help you track who is lending stock
- Important to understand difference between:
 - Analysed stock on loan
 - CREST reported stock lending numbers
 - Disclosed short positions
 - Stock lending & voting

Stocklending & Shorting

Weighted average stock on loan



Largest loan in FTSE 100 during this period was 13.86%, and in the FTSE 250 it was 32.05%

Derivatives

Overview

- What are derivatives?
- How can they be tracked?
- How can you detect derivative holdings on the share register?
- Who would hold derivatives in your stock?
- Public disclosures via TR1 forms

B 1: Financial Instruments according to Art. 13(1)(a) of Directive 2004/109/EC (DTR5.3.1.1 (a))				
Type of financial instrument	Expiration date ^x	Exercise/ Conversion Period ^{xi}	Number of voting rights that may be acquired if the instrument is exercised/converted.	% of voting rights
SUBTOTAL 8. B 1				

B 2: Financial Instruments with similar economic effect according to Art. 13(1)(b) of Directive 2004/109/EC (DTR5.3.1.1 (b))					
Type of financial instrument	Expiration date ^x	Exercise/ Conversion Period ^{xi}	Physical or cash settlement ^{xii}	Number of voting rights	% of voting rights
SUBTOTAL 8.B.2					

Activists

Overview

- What is an activist?
- In which ways can an activist build a stake in a target company – how do they hide their shares?
- How can you monitor your shareholder base for activist activity?
- Case study
- Outlook for H2 2020

Using s793 proactively

Overview

- UK disclosure laws - comparison
- How to utilise s793 to maximum effect
- Building the bigger picture
- Dealing with non-disclosing entities
- S793 responses vs TR1 disclosures

Final Thoughts

Summary

- The COVID-19 crisis has made it even more vital that companies identify their shareholders
- Depressed share prices resulting from the crisis exposed companies to aggressive value investors
- Some activists & hedge funds use opaque non-traditional mechanisms to take positions on share registers
- Understanding how investors hold shares on share register is key to early warning of & managing any activist defence situation
- As we come through the crisis, UK companies need regular, timely & granular SRA, carried out within context of understanding of implications of data
- Good SRA insights help Boards defend their companies against activism & takeover



Q&A



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